



DEVELOPMENT ECONOMICS

Corporate social responsibility and its implication in India

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What is Corporate Social Responsibility ?

Corporate Responsibility is a form of self-regulation business model which aims to contribute to society by doing philanthropist , activist or charitable work by volunteering or doing ethically-oriented practices. Through this way companies make them socially accountable to themselves , their stakeholders and the public. The company operates in a way that enhances the society and environment. CSR helps both company and society in a positive way. It helps companies to improve their brand image.

While once CSR was an organisation's internal policy or strategy, but with time many national and international laws have been developed to increase it's practices by both small and large cooperation. Many organisations have also put their efforts to increase these practices beyond individual or industry wide initiative .

What are the different levels of CSR?

Since the 1950s the practice of CSR has been in discussion. However it wasn't until much later that people started to understand its importance. CSR as we know it today gained popularity after Archie Carroll's "Pyramid of Corporate Social Responsibility " was published in 1991. The pyramid has become one of the most widely accepted corporate CSR theories due to its simplicity and ability to represent the concept of CSR in four domains.

Carroll's pyramid suggests that corporate has to fulfil responsibility at four levels :

- Economic
- Legal
- Ethical
- Philanthropic

Economic Responsibility

This lowest level of the pyramid depicts the primary obligation of a firm, which is to be profitable. Without earnings, the firm would be unable to pay its employees, and employees would lose their employment even before CSR efforts began. Profitability is the only way for a business to thrive in the long run and serve society. Furthermore, it is a company's responsibility to create goods and services that are needed/wanted by customers at a reasonable cost.

Legal Responsibility

The legal responsibility of the business to follow the law is the second level of the pyramid. This is the most significant of the four responsibilities since it demonstrates how businesses behave

themselves in the marketplace. Employment rules, competition with other businesses, tax restrictions, and employee health and safety are just a few of the legal obligations that a corporation must follow. Failure to be legally accountable may be disastrous for a company.

Ethical Responsibility

Doing the right thing, being fair in all situations, and avoiding damage are all part of the ethical layer of the pyramid. A firm should not only follow the law, but also conduct itself in an ethical manner. Unlike the first two levels, this is not something that a business must accomplish. However, it is preferable for a corporation to be ethical since it not only demonstrates to its stakeholders that it is moral and equitable, but it also makes customers feel more comfortable purchasing goods and services from it. Being morally responsible might include things like being environmentally conscious and treating suppliers and employees fairly.

Philanthropic Responsibility

Philanthropy is at the summit of the pyramid, taking up the lowest amount of space. Businesses have long been chastised for their carbon footprints, pollution, and use of natural resources, among other things. To compensate for these drawbacks, they should "give back" to the community from which they benefit. Even though this is the greatest degree of CSR, it should not be overlooked because many consumers prefer to do business with firms that give back to the community. Philanthropic responsibility is more than simply doing the right thing; it also entails giving back to society in accordance with the company's ideals.

Responsible company, according to Carroll's pyramid, is one that qualifies all levels of responsibilities before engaging in charity. A business cannot survive if the other obligations are not met.

Companies perspective

It gives many advantages to companies regardless of their size or sector. Some potential benefits of corporate social responsibility to the companies are :

- better brand recognition
- positive business reputation
- increased sales
- increases customer loyalty and retention
- Saves operational costs
- improve financial performance
- increased capacity to attract and retain talent
- organisational growth

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- easier access to capital
 - Increase employee engagement

Responsible business reputation

It helps to build a reputation as a responsible business, which in turn, leads to competitive advantage. Many consumers prefer dealing with companies that have responsible policies while some insist on them. Suppliers also favours the companies with responsible public policies.

Improve revenue

Corporate Social Responsibility programs are proven to increase productivity. Increasing employee productivity will give additional work in a year. This means more products for sale. Added services to be sold for the same wages. Because your employees are happy and involved in both your business and in your community . It also helps to increase market value among investors.

Cost saving

By conducting CSR programs companies can increase their reach among people without any additional advertisement cost. It also save their money by retensioning the employees which saves the cost of replacing the employees.

Increase employee engagement

Extensive research shows that corporate social responsibilities helps in employees engagement. It helps in increasing work satisfaction . It helps employees in increasing there productivity ,profitability and lower there absenteeism. Giving back to the community creates a virtuous loop in which engaged workers are enhanced by volunteer opportunities that engage and motivate them even more.

Easier access to capital

Investors are also more willing to invest in companies which have good CSR policies.

Consumer perspective

Most consumers think that corporations should engage in CSR activities while meeting commercial objectives. The majority of customers feel that firms that conduct charitable activity will be well received. Somerville also discovered that customers are loyal to retailers who

support charities and are eager to spend more money on them. Consumers also assume that retailers who sell locally produced goods would increase customer loyalty. Environmental measures, on the other hand, are criticised because of concerns that they may harm customer service. Some studies discovered that not all CSR initiatives are appealing to customers, thus advising merchants should concentrate on one activity. According to research, if a firm's social effort is not connected with other company goals, it will have a negative impact.

CSR's Global impact

Corporate social responsibility measures are already having an influence on a worldwide scale. Many businesses have realised the benefits of implementing corporate social responsibility policies for both company and society. Large corporations should prioritise corporate social responsibility plans because they have the ability to have a significant social and environmental effect. There is a larger possibility for accomplishing UN Sustainable Development Goals on a global scale when several local SME corporate social responsibility efforts are combined.

Some Companies with best CSR policies

Starbucks

Starbucks has long been known for its keen sense of corporate social responsibility and commitment to sustainability and community welfare. According to the company, Starbucks has achieved many of its CSR milestones since it opened its doors.

Some of its famous CSR policies are :

- Over the last seven years, Starbucks employees and customers have donated over 3 million hours of community service.
- Starbucks Community Stores intends to aid local non-profit organisations in their efforts to give education and training in order to eradicate poverty among the youthful population. Since its inception in 2011, the firm has raised more than USD 900,000 in funding.
- Starbucks has partnered with non-profit organisations, community leaders, and organisational stakeholders to give over 520,000 hours of volunteer work worldwide.
- The corporation aimed to hire 10,000 veterans and military spouses by 2018, and in 2014, it hired 2000 new employees from this demographic.
- It has been observed that "At the height of the global financial crisis, when other corporations were reducing HR expenses wherever they could, Starbucks invested in worker training, including coffee tastings and courses that eventually qualified for credit at higher education institutions,"

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- Starbucks met its water conservation objective in 2015, cutting usage by more than 26% over 2008 – from 24 gallons of water per square foot of retail space to less than 18 gallons.
 - More than 760 establishments implemented customer-facing recycling in 2014. Customer-facing recycling is incorporated in 3849, or 47 percent, of all company-operated stores in the United States and Canada.
 - In 2015, A.F.E. Practices, Fairtrade, or another independently monitored system certified 99 percent of Starbucks' coffee as ethically sourced.

Google

Some of the famous google CSR policies are:

- Google data centres use half as much electricity as a conventional data centre.
- Google acquires or generates 24% renewable energy, while the corporation already has 11% renewable power on the grid, bringing the overall use of renewable energy to 35%. Carbon offset programmes offset the usage of the remaining 65 percent of non-renewable energy.
- Google has committed to investing more than USD1.5 billion in renewable energy projects such as large-scale wind turbines and rooftop solar panels.
- Since 2007, the firm has been carbon neutral.
- Google's 'Commuting Sustainably' initiative saves 5,700 automobiles from the road each year, while the company's shuttle programme and electric vehicle charging stations save more than 87 million vehicle miles.
- From 2013 to 2015, the internet behemoth lowered drinkable litres of water consumed per employee at its Bay Area headquarters by 30 percent.

The steps taken by the government of countries around the world

Corporations that engage in CSR activities do not necessarily act in the same way in different regions of the world. A single behaviour, on the other hand, may not be regarded as ethical in all jurisdictions. Some authorities, for example, prohibit women from driving, while others demand that women be treated equally in hiring choices.

European union policies on CSR

In 2001, the European Commission published a green paper titled "Promoting a European Framework for Corporate Social Responsibility" for the European Communities, as the EU was then known. CSR was described in that statement as a voluntary concept in which businesses integrate social and environmental issues into their business operations and interactions with their stakeholders.

By October 2011 they released a revised policy, A refreshed EU strategy for Corporate Social Responsibility 2011–14. CSR was described more succinctly in this paper as an enterprise's responsibility for its influence on society.

In addition to CSR, the OECD's alternative term "responsible business behaviour" (RBC) was also accepted. Now CSR is no longer treated as "voluntary" or some additional aspects. The commission now stated that

enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders.

The present CSR action agenda of the European Commission is as follows:

- Increasing CSR visibility and promoting best practices.
- Increasing and measuring levels of business trust.
- Improving self-control and co-regulation.
- Increasing the market reward for corporate social responsibility
- Improving social and environmental information disclosure by businesses.
- Incorporating CSR into education, training, and research to a greater extent.
- Highlighting the significance of national and subnational CSR initiatives.
- Bringing European and global approaches to CSR closer together.

The United Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, and OECD Guidelines for Multinational Enterprises all serve as foundations for the CSR strategy.

US Policies on CSR

The Bureau of Economic and Business Affairs' (EB) CSR team is in charge of the Department's interaction with US firms in order to promote responsible and ethical business practises. Business, according to the State Department, is a valuable diplomatic and development resource. For American organisations trying to implement excellent CSR programmes, the EB acts as a source of direction and help. It connects corporations with non-profits and other members of civil society who want to make a difference. EB also assists enterprises in adhering to global business behaviour requirements such as the Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development. The EB is responsible for determining the Secretary of State's Award for Corporate Excellence, which honours exceptional global citizens.

Indian Government Policies on CSR

India became the first country to mandate CSR in corporate sector companies. Under the Firms Act of 1956, 2013, the Ministry of Corporate Affairs (MCA) of the Government of India controls and regulates corporate sector companies.

Section 135 of the Companies Act 1956 was amended in 2013 to incorporate a Corporate Social Responsibility Policy. This Policy, colloquially known as the 'CSR Rules,' outlines the criteria that firms must follow while engaging in Corporate Social Responsibility. Since April 1, 2014, Indian corporate enterprises have been subject to CSR rules.

Government's Social Responsibility definition

There are programmes that require financial support in order to enhance the lives of underserved and disadvantaged members of society are considered as Social responsibility by the government.

These are roughly categorised as the social and environmental welfare programmes included in Schedule VII of the Companies Act 2013:

- Education Promotion
- Eradication of Hunger and Poverty
- Gender equality and women's empowerment should be promoted.
- Combating fatal illnesses such as HIV/AIDS
- Environmental Sustainability
- Projects in Social Business
- Contribution to PM Relief Funds, as well as State and Central Funds
- Enhancing Vocational Skills Through Employment
- Protection of National history, art, culture, and so on.
- Women's and children's healthcare facilities

These obligations include contributions made to enhance sanitation, water facilities, healthcare, education, and other services for the needy.

CSR policies

According to Sub-Section 1 of the CSR Rules of the Firms Act, 2013, the following companies must be relevant for Corporate Social Responsibility:

- Companies having an annual net worth of Rs 500 crore or more
- Companies having an annual revenue of Rs 1000 crore or more
- Companies making a net profit of Rs 5 crore or more every year.

Companies completing any one of the requirements given above for three consecutive years are compelled to adopt Corporate Social Responsibility in India. These businesses will be governed by Section 135 of the Companies Act of 2013.

CSR Committee

Companies that meet the aforementioned requirements must create a committee from their current Board of Directors known as the 'CSR Committee' in order to comply with the CSR Rules. The Committee shall have a minimum of three members, with at least one of them being an independent director. This became effective in India on April 1, 2014.

Objectives of a Corporate Social Responsibility Policy

A company's CSR Policy should be developed, modified, and implemented in accordance with the CSR Rules of the Companies Act 2013. The policy should specify or require a minimum of 2% of the company's net income to be spent towards social responsibility. It should also consider allowing the company's employees to participate in social responsibility activities.

The CSR Committee's compliance

- Companies who have a CSR committee are required to spend a minimum of 2% of their net income on CSR for the following three fiscal years. This sum must be put aside by the corporation for CSR projects.
- The Board of Directors must develop a CSR Policy for the firm, manage its budget properly, and carry out CSR activities based on the Committee's recommendations.
- Foreign firms with branches in India must assess their yearly net worth, profit, and loss in accordance with Sections 198 and 381 of the Companies Act, 2013.
- The spending under the CSR Policy is tax deductible, although no particular tax exemptions are provided for it under the Finance Act of 2014.
- The expenditure on CSR employees or people, in the form of salary, benefits, and so on, is limited to 5% of overall CSR expenditure.

CSR Report

A corporate company's Board of Directors is responsible for specific CSR tasks. One of several responsibilities is the creation of an annual CSR Report, which is nothing more than a full explanation of CSR and CSR policy compliance.

According to Rule 8 and Sub-Section 3 of Section 135 of the Companies Act of 2013, the Board must report on the formation of a CSR Committee, among other things. The following specifications are included in a Corporate Social Responsibility Report:

- The composition of the CSR Committee of the firm
- A synopsis of the company's CSR Policy, social responsibility initiatives or tasks done, and so on.
- A statement detailing the company's net earnings over the preceding three fiscal years.
- The projected expenditure, which should amount to at least 2% of the net profit.
- Expenditure information for the CSR programmes' budget.
- The Report should also include the reasons for any failure to spend the specified amount on CSR.

The report should be posted on the company's website, along with a link to the CSR efforts.

If the Company does not fulfil the Section 135 standards

If the firm no longer falls within Section 135, i.e. no longer has a net worth of Rs 500 crore or a profit of Rs 5 crore, etc., it is no longer required to follow the CSR requirements outlined in the Companies Act 2013.

Companies must follow CSR guidelines and create a CSR committee if they satisfy the stated conditions. There are no consequences for failing to comply with the CSR Policy or for ceasing to be covered by Section 135.

Policies Changes and addition in CSR in 2020

In the midst of the COVID-19 (coronavirus) epidemic, the Ministry of Corporate Affairs announced that enterprises' expenditures to combat the pandemic will be considered CSR efforts. Profits may be used for COVID-19-related activities such as donating to the PM-CARES Fund, promoting healthcare, particularly preventative healthcare and sanitation, and disaster management.

The Companies(Amendment) Act, 2020 impact on CSR :

Surplus CSR spending:

At the moment, excess CSR spending cannot be carried forward. As a result, a third proviso has been added to Section 135's sub-section 5:

if the corporate spends more than 2% of the company's typical net profits made during the three immediately preceding fiscal years, such company may set off such excess amount against the requirement to spend under this subsection for the number of prescribed financial years in the manner provided.

In other words, organisations that spend more than the required 2% on CSR during a fiscal year may carry it forward as credit for meeting CSR responsibilities in subsequent years.

Social Stock Exchange Amendments

Companies spending above mandatory 2 percent of their pre-tax profits on Corporate Social Responsibility (CSR) may soon trade this excess CSR expenditure. SEBI's High-Powered Committee on Social Stock Exchange (SSE) has advised a proposal that corporations that spend more than the 2% limit stipulated by Section 135 of the Indian Companies Act 2013 can sell or trade this surplus amount to companies that have failed to satisfy their yearly quota.

Non Compliance penalty

According to the new sub-section 7 to Section 135:

If a company is in default in complying with the provisions of subsection or sub-section, the company shall be liable to a penalty of twice the quantity required to be transferred by the corporate to the Fund laid out in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case could also be , or one crore rupees, whichever is a smaller amount , and each officer of the corporate who is in default shall be susceptible to a penalty of one-tenth of the amount required to be transferred by the corporate to such Fund laid out in Schedule VII, or the Unspent Corporate Social Responsibility Account, because the case could also be , or two lakh rupees, whichever is less.

CSR committee

Under the new sub-clause 9:

Where the amount to be spent by a corporation under sub-section doesn't exceed fifty lakh rupees, the need under sub-section of constitution of the company Social Responsibility Committee shall not be applicable and therefore the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

In other words, firms with less than fifty lakh rupees to spend on CSR activities do not need to form a CSR committee, and so CSR requirements can be completed by the company's Board of Directors.

Some Companies of India with top CSR policy

Mahindra Mahindra

Mahindra Mahindra's CSR Initiatives:

- M & M sponsors Project Nanhi Kali- It is their flagship programme. Mr Anand Mahindra started Project Nanhi Kali in 1996 to help 11 lakh disadvantaged girls get an education. They give both material (such as school bags, notes, and clothes) and academic assistance (like workbooks)
- Project Hariyali - His project resulted in the planting of more than 7.9 million trees. The four million trees in the Araku Valley are included in this.
- Swachh Bharat Swachh Vidyalaya - 4340 toilets were built in 104 districts.
- Mahindra Pride School-More than 10000 youngsters in Pune, Patna, Chandigarh, Chennai, and Srinagar received livelihood and vocational training.

Tata Power

Tata Power's CSR Initiatives

- The Act of Manseer-The Flagship Program began in 1975 . It's a sensible conservation programme for endangered animals. They have established a breeding centre in Lonavala (Maharashtra) as part of their lake rehabilitation and development initiative. The approach has had positive results in a variety of aquatic bodies.
- They developed 'Dhaaga' , a women's enterprise for garment sewing and handcraft production to uplift women and foster their empowerment and equality.
- They've also developed 'Abha,' a programme for women to 'Earn While You Learn.'
- They also invest in the development of occupational skills among adolescents from economically and socially disadvantaged backgrounds.
- Tata Power is a significant contributor from the Tata Group and one of India's top CSR firms. Through different programmes, they got out to over 230 schools, covering the education of over 1 lakh pupils.

Infosys

Infosys's CSR initiatives:

- The Infosys Foundation runs mid-day feeding programmes in several Indian states.
- The IT behemoth is working to eradicate starvation. They also work to improve the underprivileged people's health, sanitation, and quality of life.

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- They conduct career counselling workshops for girls as well as empowerment programmes for women with disabilities. They also conduct workshops for moms to help them be better parents.
 - They have rebuilt schools, dormitories, and orphanages in the field of education.
 - In addition, they have provided cash to the development of a metro station in collaboration with Bangalore Metro Rail Corporation Limited.
 - They also contribute to the disaster relief funds established by the Central Government.

Implication of CSR in India

The implication of government CSR policy in India are :

- Companies that meet the requirements outlined in Section 135 of the Companies Act 2013 must organise a CSR committee and post the policy on the company's website.
- Mandatory spending of a certain amount on CSR initiatives such as education, poverty, gender equality, and hunger.
- Increased trust in the firm from shareholders, workers, and society as a whole.
- Businesses in India are progressively incorporating CSR efforts into their overall business plans.
- Companies increasingly have dedicated divisions to oversee CSR activities, develop CSR policies and strategies, and set distinct CSR targets and budgets.
- Increased compliance and report filing for the companies.

As a consequence of these policies the number of companies funding under CSR are increasing. Transparency has risen and improved since the mandate. In addition, the number of enterprises spending less than 2% of statutory CSR funding has dropped dramatically.

Conclusion

While many corporate sector organisations in India practise Corporate Social Responsibility, it plays an important part in providing contemporary and better training, amenities, education, healthcare, and other services to the disadvantaged. CSR, on the other hand, is not penalised in India, and businesses frequently strive to avoid it. Making stricter laws and issuing punishments will assist to alleviate this issue.

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